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**FACEBOOK TO LAUNCH ITS
DIGITAL CURRENCY, LIBRA -
IMPLICATIONS FOR AFRICA**



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A cryptocurrency is a digital or virtual currency designed to work as a medium of exchange. It uses cryptography to secure and verify transactions as well as to control the creation of new units of a particular cryptocurrency.

The currency typically operates using Blockchain technology, which is a system that links a record of ledgers, using cryptography.

So, unlike fiat currency, Cryptocurrency is not readily susceptible to theft and does not require long wait periods before transactions are processed.

On Tuesday the 18th of June, 2019, Facebook announced the launch of its Blockchain based Cryptocurrency (“Crypto”) called ‘Libra’.

WHAT WE KNOW ABOUT FACEBOOK’S LIBRA

Libra is governed by a non-profit called the Libra Association, with a Facebook subsidiary called ‘Calibra’ being the platform that would release a wallet for Libra tokens and other financial services. Visa, Mastercard, PayPal and Uber are among firms that will invest around \$10 million each^[1] in Libra.

[1] The Wall Street Journal <https://www.wsj.com/articles/facebooks-new-cryptocurrency-gets-big-backers-11560463312?utm_source=Naija+Startups+Weekly+Scoop&utm_campaign=17b08d4223-EMAIL_CAMPAIGN_2019_03_11_09_50_COPY_01&utm_medium=email&utm_term=0_096a2d8575-17b08d4223-273478397>

Facebook intends to use Libra to facilitate the growth of small businesses and e-commerce, generally.

Companies will be encouraged to sign up to accept Libra for payments, and customers will be given regular discounts to promote e-commerce on the platform. Libra is going a step further than ‘funds’ by striving for a system where services like Uber, Lyft, Spotify and many more could be paid for using the coin.

Users would be able to operate through third-party wallet apps or Facebook’s own Calibra wallet that will be built into WhatsApp, Messenger and the Facebook app. Libra will operate using a reserve currency pool- to ensure that various currencies across the globe like the Dollar, Pound, and Yen will contribute to the pool and stabilise the value.

The Libra Association maintains the reserve pool and can change the balance of its composition if necessary to offset significant price fluctuations in any one foreign currency so that the value of a Libra stays consistent

Set to be fully operational in 2020, Libra intends to become the first mainstream, globally acceptable and stable cryptocurrency, which can be used for payment of goods and services in our everyday lives.



WHAT WE THINK ABOUT LIBRA

We undertook a critical review of the 26 paged technical report, 'The Libra Blockchain'[2] impressively written by 53 authors.

The technical report described the Libra protocol, which implements the Libra Blockchain. Here is what we think about Libra after reviewing the report!

1 *"Transactions are based on predefined and, in future versions, user-defined smart contracts in a new programming language called Move."*

A fascinating use of Blockchain technology is the smart contract. Smart contracts like contracts in the real world are written into lines of code and stored within a Blockchain.

These lines of code contain specific terms that are executed when triggered by conditions agreed by parties in the contract.

Smart contracts inherit some of the Blockchain's properties because they are designed and implemented within Blockchain.

For example, smart contracts are rigid this means that they cannot be changed after they are created.

It is true that with the penetration of the internet, Facebook has more users than any country, or all the banks in the world combined.

The nature of the Blockchain system means that the players involved will most likely be 'distributed' around the globe.[3]

As such, the use of a custom built smart contracting language by Libra will result in a lot of questions around how feature rich the language is and, as a result, how robust the system is against adversarial contracts.[4]

We advise that parties intending to use the 'Libra coin' should give thought to the governance of the Libra Blockchain and enforceability of the smart contract.

Perhaps, Facebook would need to elucidate on what it means by 'user-defined' smart contracts.

[2] <https://developers.libra.org/docs/assets/papers/the-libra-blockchain.pdf>

[3] Shaneel Parikh < <https://www.lexology.com/library/detail.aspx?g=3c6f7934-0cd5-4281-9e2a-3d31a7ee278f>>

[4] Jameson Lopp < <https://medium.com/@lopp/thoughts-on-libra-blockchain-49b8f6c26372>>



2 *“The Libra protocol does not link accounts to a real-world identity. A user is free to create multiple accounts by generating multiple key-pairs.*

Accounts controlled by the same user have no inherent link to each other. This scheme follows the example of Bitcoin and Ethereum in that it provides pseudonymity for users.”

Essentially, the Libra coin will be pseudonymous, although not anonymous, it would be on the same level of privacy with Bitcoin and many other crypto networks.

In other words, customers’ account information and financial data will not be used to improve ad targeting on Facebook, and the risk of data being ‘leaked’ is reduced to a large extent.

We believe that this is a good step in the right direction, i.e, privacy preservation.

3 *“We anticipate that as the system is used, eventually storage growth associated with accounts may become a problem. Just as gas encourages responsible use of computation resources, we expect that a similar rent-based mechanism may be needed for storage. We are assessing a wide range of approaches for a rent-based mechanism that best suits the ecosystem.”*

On the one hand, we think it is commendable that Facebook would take a huge step to pseudonymise users to preserve privacy.

We, however, see the unresolved dilemma of ‘storage growth’ and the use of ‘rented storage’ for Libra as a potential pitfall.

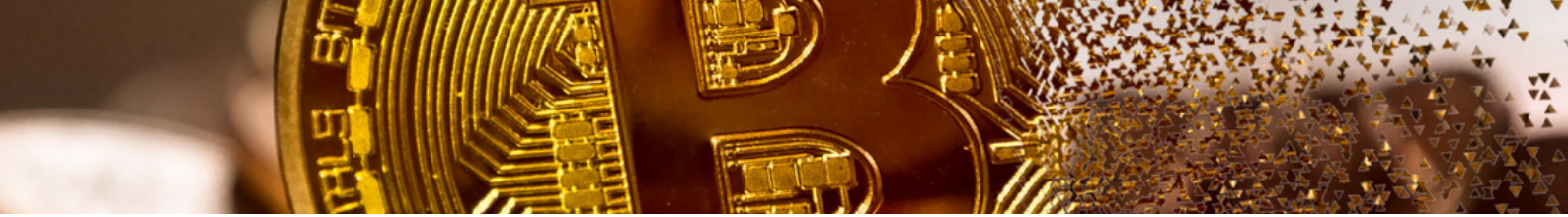
We are keeping keen eyes on Facebook’s solution for a ‘rent-based mechanism’. We trust that Facebook understands the data privacy implications of renting storage.

4 *In order to manage demand for compute capacity, the Libra protocol charges transaction fees, denominated in Libra coins.*

We are interested to know how Facebook would be able to balance the pseudonymous nature of Libra against the security protocols of anti-money laundering (AML) and know your customer (KYC) protocols.

In a statement to the press, a Facebook representative said, “we will be using all the same verification and anti-fraud processes that banks and credit cards use, and we’ll have automated systems that will proactively monitor activity to protect and prevent fraudulent behaviour.”

It would be interesting to know if users can acquire coins without AML/KYC. If not, perhaps, an explanation on how users are able to use any of the system’s functionality anonymously would be needed.



5 *“The Libra protocol uses a single Merkle tree to provide an authenticated data structure for the ledger history... specifically, the ledger history uses the Merkle tree accumulator approach to form Merkle trees, which also provides efficient append operations.”*

We do not agree with Facebook that Libra is a blockchain.

The technical report describes Libra as a ‘Blockchain’. That may be misleading as the data structure of the ledger history is a set of signed ledger states.

There are no back-linked lists of data that form a chain nor are there any blocks, much less a chain of blocks.

Decentralisation is a major feature of blockchain. Libra is not decentralised or open[5], as the ledger of transactions will be exclusively accessible to the Libra Association founding members[6].

Final Thoughts

The introduction of Libra is topical and an important development. The ability of a private company to create a financial instrument like Libra, especially a company like Facebook that thrives on controlling and monetising on user data, is something not to be taken lightly.

[5] Tech Crunch <<https://techcrunch.com/2019/06/19/libra-currently-looks-more-like-a-fiat-currency-than-a-cryptocurrency/>>

[6] Members include: Women’s World Banking; Kiva Booking Holdings; Andressen Horowitz; Farfetch; Iliad; Mastercard; Uber; PayU; Mercado pago; Coinbase; PayPal; Creative3; Bison Trails; Calibra; Mercy Corps; Vodafone; United Square Ventures; Ribbit Capital; Thrive Capital; Visa; Lyft; Stripe; Ebay; Spotify; Anchorage; Xapo; Breakthrough Innovations and Facebook

Other than the above, we believe that Libra would link countries across the globe in a way that takes international funds transfers, e-commerce and payments for services to a whole new level.

The role that Cryptocurrency is beginning to play in e-commerce might pose uncertainty to the Nigerian economy if more and more citizens begin to make purchases using Libra.

Like Argentina and Spain, will the Nigerian government consider certain universally accepted Crypto as ‘currency’ and thus subject to VAT and personal income tax? Or will the government adopt the regulations in Switzerland and maintain that Crypto is ‘foreign currency’.

The path our regulators intend to take is presently unclear, but now more than ever, the government must look into creating Crypto regulations that will enrich the economy.

Libra has changed the conversation because of how it applies to citizens from countries across the globe. Nigerians will inadvertently be pulled into the ecosystem of international funds transfers and e-commerce. It is, therefore, in our best interest to have a precise regulation now, so Nigeria would not be caught playing catch-up!

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**KANYINSOLA
OJESHINA**



**HANNATU
DAN-HABU**



**TOBILOBA
OLULEYE**

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Contact us at:

4th Floor, Marble House,
1 Kingsway Road, Falomo Ikoyi,
Lagos, Nigeria

Telephone: (+234-1) 4617321-3, 2793367-8, 7406533,

E-mail: lagos@aelex.com

Click here www.aelex.com

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@aelexpartners